

WASATCH MENTAL HEALTH SERVICES

SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF UTAH COUNTY

Financial Statements

June 30, 2005

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INDEPENDENT AUDITORS' REPORT

The Authority Board Wasatch Mental Health Services Special Service District

We have audited the accompanying financial statements of Wasatch Mental Health Services Special Service District, a component unit of Utah County, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of Wasatch Mental Health Services Special Service District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wasatch Mental Health Services Special Service District, as of June 30, 2005, and the changes in its financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2005 on our consideration of Wasatch Mental Health Services Special Service District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages MDA-1 through MDA-5 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of Wasatch Mental Health Services Special Service District, taken as a whole. The statements listed in the supplemental information section of the table of contents and the Schedule of Expenditures of Federal Awards listed in

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the single audit section of the table of contents, as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, are presented for purposes of additional analysis and are not a required part of the financial statements of Wasatch Mental Health. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Hawkins Cloward & Simister, LC

HAWKINS CLOWARD & SIMISTER, LC

CERTIFIED PUBLIC ACCOUNTANTS

November 21, 2005



Wasatch Mental Health

*P. LaMar Eyre, MSW, LCSW
Executive Director*

Management's Discussion and Analysis

As management of Wasatch Mental Health Special Services District (The Center), we offer readers of the Center's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the independent Auditor's report.

History and Background of District

Wasatch Mental Health is a separate Special Service District of Utah County formed July 1, 2003. It provides mental health services to the residents of Utah County, and is a component unit of Utah County for financial reporting purposes.

Prior to July 1, 2003 Wasatch Mental Health was a separate, legal, political entity formed under an inter-local cooperation agreement between Utah and Wasatch Counties to provide mental health services to the residents of the two counties.

Today Wasatch Mental Health has approximately 350 part and full-time employees who provide critically needed mental health services to nearly 5,500 Utah County residents.

Financial Highlights

- The assets of the Center exceeded its liabilities at the close of the most recent fiscal year by \$11,590,124 (*total net assets*). Of this amount, \$5,515,618 may be used to meet the Center's ongoing obligations.
- The Center's total net assets increased by \$511,964.
- At the end of the current fiscal year, the unrestricted net assets balance was \$5,515,1618 or 30 percent of total fund expenditures.
- The Center's total debt increased by \$1,730,296 (45 percent) during the current fiscal year. The significant changes included: 1)\$969,608 increase in the post-employment retirement benefits liability accrued during the current fiscal year, 2) a decrease of \$130,585 in accounts payable, 3) an increase of \$285,821 in wages & benefits payable and 4) an increase of \$401,795 in Medicaid match payable.
- Fiscal year 2005 revenues increased by \$1,033,781 or 5.6% while expenses increased by \$1,297,231 million or 7.7%.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Center's financial statements. The financial statements comprise two components: 1) financial statements and 2) notes to the financial statements. Wasatch Mental Health is a special-purpose government engaged only in business-type activities, so only the fund financial statements are presented as the financial statements. The report also includes other supplementary information in addition to the financial statements.

Financial statements. The financial statements are designed to provide readers with a broad overview of the Center's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the Center's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Center is improving or deteriorating.

The *Statement of Revenues, Expenses, and Changes in Net Assets* presents information showing how the Center's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected revenues and earned but unused vacation leave).

The *Statement of Cash Flows* presents information showing how the cash and cash equivalents of the Center changed during the most recent fiscal year because of cash flows.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes are part of the financial statements.

Other information. In addition to the financial statements and accompanying notes, this report also presents certain supplementary information concerning the Center's functional expenses and schedule of federal awards.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Center, assets exceeded liabilities by \$11,590,124 at the close of the fiscal year.

By far the largest portion of the Center's net assets (52 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment). There is no outstanding debt related to any of these capital assets.

Wasatch Mental Health Net Assets

	2005	2004
Current and other assets	\$10,648,556	\$8,160,132
Capital assets (net of accumulated depreciation)	6,074,507	6,310,493
Other assets	477,674	487,851
Total assets	17,200,736	14,958,476
Current liabilities	4,694,117	3,880,316
Long-term liabilities	916,495	0
Total liabilities	5,610,612	3,880,316
Net assets:		
Invested in capital assets, net of related debt	6,074,507	6,310,492
Unrestricted	5,515,618	4,767,668
Total net assets	\$11,590,124	11,078,160

The balance of *unrestricted net assets* \$5,515,618 may be used to meet the Center's ongoing operations or obligations to creditors.

At the end of the current year, the Center is able to report positive balances in all categories of net assets. The same situation held true for the prior year.

The Center's net assets increased by \$511,964 during the current fiscal year.

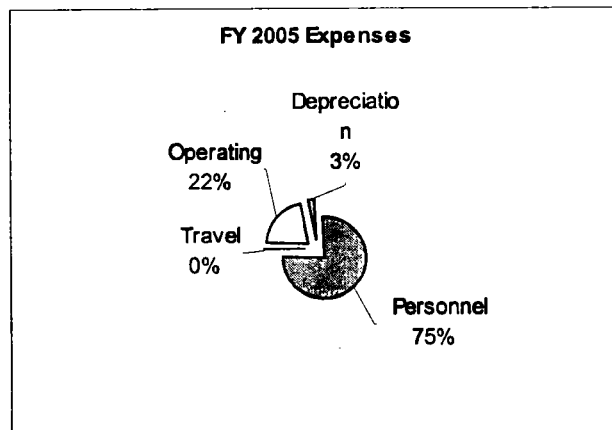
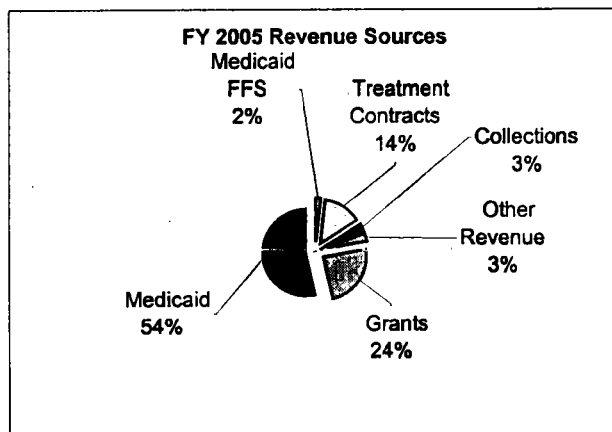
Business-type Activities. Key elements of the growth of net assets are as follows:

Wasatch Mental Health's Changes in Net Assets

	2005	2004
Revenues:		
Grants	\$4,526,700	\$4,349,240
Medicaid	10,001,555	9,230,954
Medicaid fee for service	355,954	448,628
Treatment contracts	2,686,421	2,382,559
Collections	559,026	721,247
Other revenue	557,946	521,192
Total revenue	18,687,602	17,653,821
Expenses:		
Personnel	13,648,376	12,515,462
Travel	33,092	25,568
Program operating expenses	4,021,670	3,930,953
Depreciation	472,500	406,424
Total expenses	18,175,638	16,878,408

Change in net assets	511,964	636,428
Net assets – Beginning	11,078,160	10,441,732
Net assets – Ending	11,590,124	11,078,160

- Charges for services for business-type activities increased by approximately \$1.0M or 5.6 percent. The increase is attributable to several factors. 1) An increase of approximately \$770,000 in Medicaid funding. 2) Increased efforts to secure other grants & contracts of approximately \$390,000 and 3) a reduction in first party collections of approximately \$162,000 as Medicaid ineligible patients were discharged during the year.
- Investment earnings increased by approximately \$58,000 because of higher interest rates during FY 2005.
- Expenses increased during FY2005. During part of the year costs were reduced in anticipation of a reduction in Medicaid funding through a reduction in force and cuts in other operating expenses. As final Medicaid rates approved, the cuts did not occur. Personnel expenses increased through an accrual of \$969,608 for post-retirement benefits along with added personnel for the newly secured grants & contracts.



Capital Asset and Debt Administration

Capital Assets. The Center's investment in capital assets for its governmental and business- type activities as of June 30, 2005 amounts to \$6,074,506 (net of accumulated depreciation). This investment in capital assets includes land, buildings, furniture & equipment and vehicles. The total decrease in the Center's investment in capital assets for the current fiscal year was \$253,986 or 3.7 percent. This was primarily due to increased depreciation expense from recently completed buildings. Major capital asset events during the current fiscal year included scheduled replacement of certain fleet vehicles & other equipment used in the Center's operations.

Wasatch Mental Health's Capital Assets (net of depreciation)

	2005	2004
Land & buildings	\$6,950,628	\$6,869,531
Building improvements	1,556,732	1,530,942
Furniture and Equipment	986,870	1,013,712
Vehicles	170,239	128,629
Less: accumulated depreciation	(3,589,963)	(3,232,321)
Total	6,074,506	6,310,493

Long-term debt. The Center has no debt financing of capital assets. During the year, an accrual of \$969,608 was made for post-retirement benefits. Of this amount, \$916,495 is considered long-term.

Requests for Information

This financial report is designed to provide interested parties with a general overview of the Center's financial status. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Wasatch Mental Health, ATTN: Todd W. Phillips, 750 North 200 West, Provo, UT 84601.

**WASATCH MENTAL HEALTH SERVICES
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF UTAH COUNTY

Statement of Net Assets

June 30, 2005

With Comparative Totals for June 30, 2004

	Proprietary Fund Type Enterprise Fund	
<hr/>		
ASSETS		
Current Assets	2005	2004
Cash and investments (Note 2)	\$ 6,538,967	\$ 6,110,992
Restricted cash and cash equivalents (Notes 2 & 3)	82,404	89,809
Receivables, net (Note 1)	2,371,970	1,826,234
Current portion of notes receivable (Note 10)	10,177	9,682
Other current assets	1,645,038	123,415
Total current assets	<u>10,648,556</u>	<u>8,160,132</u>
Noncurrent Assets		
Notes receivable (Note 10)	477,674	487,851
Capital assets (Notes 1 & 4)		
Land & buildings	6,950,628	6,869,531
Building improvements	1,556,732	1,530,942
Furniture, fixtures & equipment	986,870	1,013,712
Vehicles	170,239	128,629
Less: accumulated depreciation	<u>(3,589,963)</u>	<u>(3,232,321)</u>
Total noncurrent assets	<u>6,552,180</u>	<u>6,798,344</u>
Total assets	<u>\$ 17,200,736</u>	<u>\$ 14,958,476</u>

**WASATCH MENTAL HEALTH SERVICES
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF UTAH COUNTY

Statement of Net Assets

June 30, 2005

With Comparative Totals for June 30, 2004

	Proprietary Fund Type	
	Enterprise Fund	
LIABILITIES		
Current Liabilities	2005	2004
Accounts payable	\$ 252,943	\$ 383,528
Rent deposits	4,576	3,256
Patient funds (Note 3)	82,623	90,779
Employee funds	17,248	13,398
Accrued liabilities	1,517,969	1,171,607
Post retirement benefits (Note 14)	53,113	
Compensated absences (Note 1)	747,965	667,137
Medicaid match payable	1,195,285	793,490
Deferred revenue (Note 1)	822,395	757,121
Total current liabilities	4,694,117	3,880,316
Noncurrent Liabilities		
Post retirement benefits (Note 14)	916,495	
Total noncurrent liabilities	916,495	
Total liabilities	5,610,612	3,880,316
NET ASSETS		
Restricted - Invested in capital assets	6,074,506	6,310,492
Unrestricted (Note 12)	5,515,618	4,767,668
Total net assets	\$ 11,590,124	\$ 11,078,160

**WASATCH MENTAL HEALTH SERVICES
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF UTAH COUNTY

Statement of Revenues, Expenses, and Changes in Net Assets

For the Year Ended June 30, 2005

With Comparative Totals for the Year Ended June 30, 2004

	2005	2004
Operating Revenues:		
Service grants	\$ 4,526,700	\$ 4,349,240
Contracts	13,043,930	12,062,143
Collections	559,026	721,246
Other	322,510	342,245
Total operating revenues	<u>18,452,166</u>	<u>17,474,874</u>
Operating Expenses:		
Personnel	12,795,448	12,294,704
Travel	33,093	25,568
Office	75,116	98,529
Occupancy	500,473	527,801
Contracted services	1,759,184	1,988,808
Staff support	206,782	196,248
Professional supplies	30,622	38,034
Patient costs	628,207	486,684
Data processing	173,816	133,131
Vehicle expense	181,249	169,736
Depreciation (Note 1)	472,500	406,424
Uncollectible billings (Note 1)	301,289	489,811
Other	164,931	22,928
Total operating expenses	<u>17,322,710</u>	<u>16,878,406</u>
Operating income	<u>1,129,456</u>	<u>596,468</u>
Nonoperating Revenues:		
Rental revenue	32,828	31,444
Donation revenue	2	11,240
Interest revenue	178,533	120,365
Dividend income	13,491	6,297
Restitution revenue	9,600	9,600
Gain on disposition of assets	982	
Total nonoperating revenues	<u>235,436</u>	<u>178,946</u>
Income before cumulative effect of change in accounting principle	1,364,892	
Cumulative effect of change in accounting principle (Note 16)	(852,928)	
Net income	511,964	775,414
Residual equity withdrawal - Wasatch County		(138,986)
Change in net assets	511,964	636,428
Net assets - beginning of year	11,078,160	10,441,732
Net assets - end of year	<u>\$ 11,590,124</u>	<u>\$ 11,078,160</u>

**WASATCH MENTAL HEALTH SERVICES
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF UTAH COUNTY

Statement of Cash Flows

For the Year Ended June 30, 2005

With Comparative Totals for the Year Ended June 30, 2004

	2005	2004
Cash flows from operating activities:		
Receipts from patients and funding sources	\$ 17,282,136	\$ 16,556,288
Other receipts	364,940	394,529
Payments to suppliers	(1,656,001)	(875,059)
Payments to employees	(12,795,448)	(12,322,812)
Payments for contracted services	(1,759,184)	(2,149,994)
Payments for patient costs	(636,363)	(485,106)
Other payments	(346,180)	(192,664)
Net cash provided by operating activities	<u>453,900</u>	<u>925,182</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of capital assets	982	
Purchases of capital assets	(236,514)	(1,702,983)
Net cash used by capital and related financing activities	<u>(235,532)</u>	<u>(1,702,983)</u>
Cash flows from investing activities:		
Interest on investments	178,533	120,365
Dividends received	13,491	6,297
Payments received on note receivable	10,178	9,209
Net cash provided by investing activities	<u>202,202</u>	<u>135,871</u>
Net increase (decrease) in cash and cash equivalents	420,570	(641,931)
Balances – beginning of year	<u>6,200,801</u>	<u>6,842,732</u>
Balances – end of year	<u>\$ 6,621,371</u>	<u>\$ 6,200,801</u>
Cash and cash equivalents	\$ 6,538,967	\$ 6,110,992
Restricted cash	82,404	89,809
Total cash and cash equivalents	<u>\$ 6,621,371</u>	<u>\$ 6,200,801</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 1,129,456	\$ 596,468
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	472,500	406,424
Changes in assets and liabilities:		
(Increase) decrease in receivables	(546,231)	(86,530)
(Increase) decrease in other current assets	(1,521,623)	(95,359)
Increase (decrease) in accounts payable	(130,585)	(487,974)
Increase (decrease) in patient fund liability	(8,156)	1,578
Increase (decrease) in other accrued liabilities	614,314	552,387
Increase (decrease) in Medicaid payables	401,795	(14,096)
Proceeds from rentals	32,828	31,444
Proceeds from donations	2	11,240
Proceeds from restitution	9,600	9,600
Net cash provided by operating activities	<u>\$ 453,900</u>	<u>\$ 925,182</u>

**WASATCH MENTAL HEALTH SERVICES
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF UTAH COUNTY

Notes to Financial Statements

June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements and notes are representations of Wasatch Mental Health Services Special Service District's management, which is responsible for their integrity and objectivity. They have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). This summary of significant accounting policies of the Center is presented to assist in understanding the financial statements.

Wasatch Mental Health Services Special Services District (the Center) is a separate Special Service District of Utah County and under the direction of the County Commissioners and was in effect on July 1, 2003. Prior to July 1, 2003, Wasatch Mental Health was a legal and administrative entity created by Utah and Wasatch Counties under an inter-local cooperation agreement in July of 1992. It provides mental health services to the residents of Utah County, and is a component unit of Utah County for financial reporting purposes. This entity was dissolved as of the end of the fiscal year June 30, 2003.

The Center accounts for its transactions in an enterprise fund.

Enterprise funds focus on measurement of the flow of economic resources. With this measurement focus, all assets and liabilities associated with the operation of this fund, both current and noncurrent, are included on the statement of net assets. The accrual basis of accounting is utilized by enterprise funds. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

Enterprise funds follow all Governmental Accounting Standards Board (GASB) pronouncements. In addition all Financial Accounting Standards Board (FASB) and Accounting Principles Board (APB) opinions pronouncements issued on or before November 30, 1989 are followed unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the Center are government service contracts and grants, and charges to patients for treatment services. Operating expenses for the Center include the costs of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Revenues from governmental grants and contracts are recognized when qualifying expenses are incurred, or when qualifying services are rendered.

**WASATCH MENTAL HEALTH SERVICES
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF UTAH COUNTY

Notes to Financial Statements

June 30, 2005

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

An allowance for uncollectible billings and contractual adjustments is provided to adjust the patient receivables to the estimated net realizable amount, based on collection experience of mental health providers in Utah. Uncollectible billing estimates were \$479,460 and \$362,360 for 2005 and 2004, respectively.

The Center has a policy of providing charity care to patients who are unable to pay. Such patients are identified based on financial information obtained from the patient and subsequent analysis. Since the Center does not expect payment, estimated charges for charity care are not included in revenue. Charity care costs are costs incurred by the Center in the providing of mental health services for individuals or groups which are considered unfunded. It is estimated that the Center incurred charity care costs of approximately \$500,000 in the fiscal year ended June 30, 2005.

An annual operating budget is adopted for the Enterprise Fund. All annual appropriations lapse at fiscal year end if not expended.

All property and equipment are valued at historical cost or estimated historical cost if actual historical cost is not available. Estimated historical costs were used for a number of vehicles. Donated property is valued at estimated fair value on the date donated. Capital assets are defined by the Center as assets with an initial, individual cost of more than \$3,000. Depreciation is provided using the straight-line method as per the American Hospital Association guidelines, over the following estimated useful lives:

Building & Improvements	25-30 Years
Furniture & Equipment	5-20 Years
Vehicles	4 Years
Computer & Computer Equipment	3 Years

Revenues received prior to the year in which they are to be expended are shown as deferred revenue in the liability section of the combined balance sheet.

Center employees earn vacation on a biweekly basis in varying amounts as determined by the employee's years of service. Amounts of vacation earned and not paid as of June 30, 2005 have been accrued as a liability.

The Center has accrued \$747,965 for compensated absences. Compensated absences consist of vacation, sick, catastrophic, and holiday accruals.

**WASATCH MENTAL HEALTH SERVICES
SPECIAL SERVICE DISTRICT**

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Notes to Financial Statements

June 30, 2005

NOTE 2 – DEPOSITS AND INVESTMENTS WITH FINANCIAL INSTITUTIONS

Deposits - At June 30, 2005, the carrying amount of the Center's deposits was \$2,290,050 and the bank balance was \$3,415,310. Of this amount, \$215,639 is covered by federal depository insurance; the remaining \$3,199,671 was uncollateralized and uninsured. Deposits are not required by state statute to be collateralized.

Investments - The Center follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and temporary investment transactions. This law requires the depositing of Center funds in a "qualified depository." The Act defines "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The Money Management Act also defines the types of securities allowed as appropriate temporary investments of the Center and the conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers. The Center's investments consist of funds invested with the State Public Treasurer's Investment Pool at a carrying value and market value of \$4,331,322.

The Center also purchased several discount notes on the open market through Wells Fargo Brokerage Services. All of these investments will mature within the next year. The carrying value of these investments at June 30, 2005 was \$1,489,008.

NOTE 3 – RESTRICTED CASH

Cash held for clients is restricted to payments made to or on behalf of clients.

NOTE 4 – CHANGES IN CAPITAL ASSETS

The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized.

A summary of changes in property and equipment is as follows:

	Balance 7/1/04	Additions	Retirements	Balance 6/30/05
Land, buildings and improvements	\$ 8,400,472	\$ 138,982	\$ 32,094	\$ 8,507,360
Furniture and equipment	1,013,712	51,919	78,761	986,870
Vehicles	128,629	45,613	4,003	170,239
Total	<u>\$ 9,542,813</u>	<u>\$ 236,514</u>	<u>\$ 114,858</u>	<u>\$ 9,664,469</u>

**WASATCH MENTAL HEALTH SERVICES
SPECIAL SERVICE DISTRICT**

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Notes to Financial Statements

June 30, 2005

NOTE 5 — ECONOMIC DEPENDENCE

The Center receives the majority of its funding from federal, state and local government sources and is economically dependent on the continuation of these sources.

NOTE 6 — RETIREMENT PLANS

The Center participates in the Utah Retirement Systems (URS) which is a cost-sharing, multiple-employer defined benefit pension plan covering substantially all eligible employees of the State of Utah and employees of other participating local government units. The URS administers the following separate retirement systems in which the Center participates: the Local Government Contributory Retirement System and the Local Government Noncontributory Retirement System. Under the contributory system, the Center pays the employer and employee portions of the required plan contributions, totaling 13.08% of eligible employees' earnings. Under the noncontributory system the Center contributes 11.09% of eligible employees' earnings. The Center also contributes 3.64% of eligible employees' earnings for those participants in the noncontributory plan to a 401K plan as described in the last paragraph of this footnote.

The payroll covered by the systems for the 2004-05 year was \$7,451,717; the Center's total payroll was \$8,861,816. Contributions for the 2004-05 year of \$827,917 represent 11.11% of total participating employees' salaries and wages. The contribution rate is designed to fund current pension costs as they accrue and to amortize past-service costs over a 40-year period. Contributions to the System were remitted on a timely basis.

The URS provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes. The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the various systems. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

**WASATCH MENTAL HEALTH SERVICES
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF UTAH COUNTY

Notes to Financial Statements

June 30, 2005

NOTE 6 – RETIREMENT PLANS (CONTINUED)

A brief summary of eligibility and benefits is as follows:

	CONTRIBUTORY SYSTEM	NONCONTRIBUTORY SYSTEM
<u>Highest Average Salary</u>	<u>Highest 5 Years</u>	<u>Highest 3 Years</u>
Years of service required and/or	30 years any age	30 years any age
age eligible for benefit	20 years age 60	25 years any age
	10 years age 62	20 years age 60
	4 years age 65	10 years age 62
		4 years age 65
Benefit percent per	1.25% per year to June 1975	2.00% per year, all years
year of service	2.00% per year from July 1975 to present	

The Center contributions to the Local Governmental Contributory Retirement System for the years ending June 30, 2005, 2004, and 2003 were \$10,008, \$9,254, and \$8,421, respectively. For the Noncontributory Retirement System the contributions for June 30, 2005, 2004, and 2003 were \$817,910, \$681,207, and \$611,548, respectively. The contributions were equal to the required contributions for each year.

Ten-year historical trend information showing URS progress in accumulating sufficient assets to pay benefits when due is presented in the URS December 31, 2004 component unit financial report.

The Center also participates in a defined contribution retirement plan. This plan is administered by URS and approved by the Center's governing board. The plan meets the requirements of a qualified plan under Section 401k of the Internal Revenue Code. Under the plan the Center contributes 3.64% of eligible employees' earnings for those participating in the IRS noncontributory plan described above. Employees are 100% vested in all contributions to the plan. The Center's expenditure for this plan for 2004-05 fiscal year was \$368,125.

NOTE 7 – DEFERRED COMPENSATION PLAN

Wasatch Mental Health Services Special Service District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all eligible employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

**WASATCH MENTAL HEALTH SERVICES
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF UTAH COUNTY

Notes to Financial Statements

June 30, 2005

NOTE 7 – DEFERRED COMPENSATION PLAN (CONTINUED)

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust for the exclusive benefit of the participants or their beneficiaries by Utah Retirement Systems.

NOTE 8 – CONTINGENCIES

The Center is pursuing various legal and informal actions in attempts to recover additional monies from previous employees involved in wrongful conduct. No receivables have been recorded relating to these actions. All subsequent recoveries of restitution will remain property of the Center.

NOTE 9 – COMMITMENTS

Operating leases

The Center entered into a lease with the Utah State Motor Pool for the use of motor vehicles at a designated monthly rate for each vehicle plus an additional charge for mileage. For the current fiscal year, the Center has recorded \$108,489 in lease expense under this lease.

NOTE 10 – NOTES RECEIVABLE-PROVO CITY HOUSING AUTHORITY

During the 1999-2000 fiscal year, the Center entered into an agreement with Provo City Housing Authority (PCHA) whereby the Center acted as developer for the construction of a 24-unit apartment complex to be used for low-income housing for mentally ill persons. At the completion of construction, the complex was sold to Maple View Apartments II, LLC, in exchange for the notes receivable, described below. PCHA is the managing member of the LLC, which obtained federal low-income housing tax credits through a commercial bank for the majority of the cost of the project. The bank is a non-managing member of the LLC. The long-term portion is to be paid out of the LLC's operating revenues, based on a 30-year amortization schedule. The Center has the option, at the end of 15 years, to purchase the complex for the amount of the outstanding debt.

**WASATCH MENTAL HEALTH SERVICES
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF UTAH COUNTY

Notes to Financial Statements

June 30, 2005

NOTE 10 – NOTES RECEIVABLE-PROVO CITY HOUSING AUTHORITY (Cont.)

The note receivable as of June 30, 2005 is as follows:

5% note receivable from Provo City Housing Authority.

Payments are due monthly through July 2015, including interest.

Amount receivable within one year

Long-term portion

\$ 487,851

(10,177)

\$ 477,674

NOTE 11 – STATEMENT OF CASH FLOWS

For purposes of the Statement of Cash Flows, the Center considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents.

NOTE 12 – RESERVATION/DESIGNATION OF UNRESTRICTED NET ASSETS

The Center's governing board has designated portions of the net assets to be used for 2 different purposes. An amount is designated annually to fulfill a commitment in the Medicaid contract for maintenance of minimum liquid asset reserves sufficient to cover 60 days of operating expenses.

The following summarizes the changes in the components of the unrestricted net assets:

Description	7/01/04	Adjustments		06/30/05
	Balance	Reductions	Additions	Balance
Designated 60 Day Operating	\$ 2,773,965			\$ 2,773,965
Operating Fund Balance	1,993,703		747,950	2,741,653
	<u>\$ 4,767,668</u>	<u>\$ -</u>	<u>\$ 747,950</u>	<u>\$ 5,515,618</u>

**WASATCH MENTAL HEALTH SERVICES
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF UTAH COUNTY

Notes to Financial Statements

June 30, 2005

NOTE 13 – RELATIONSHIP WITH UTAH COUNTY

Wasatch Mental Health is a separate Special Service District of Utah County formed on July 1, 2003. The Center provides mental health services to the residents of Utah County, and is a component unit of Utah County for financial reporting purposes.

Prior to July 1, 2003 Wasatch Mental Health was a separate, legal entity formed under an inter-local cooperation agreement between Utah and Wasatch Counties to provide mental health services to the residents of the two counties. The commissioners from both counties acted as the board of directors for the Center, with Utah County being the situs county. Due to the significance of the operational relationship the Center had with Utah County, the Center was considered a component unit of the County and its operations were included with those of the County on the County's financial reports.

NOTE 14 – POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

During fiscal year 1997, Wasatch Mental Health adopted and implemented a post-retirement benefit plan. This benefit is available to all Center employees that retire from Wasatch Mental Health and are eligible to receive retirement benefits under the Utah State Retirement System. The purpose of this benefit is to provide medical and dental insurance coverage to employees that retire before age 65 and their spouses until each reaches Medicare eligibility at age 65. The Center pays 75% of the medical premium and 50% of the dental premium, and the employee pays their respective portion.

The Center adopted GASB 45 (see Note 16), which requires that post-employment benefits other than pensions be accounted for in a similar manner to that of pensions. The Center is now expected to forecast the amount of future liability associated with this benefit and record the liability and associated expense as the employees earn it, not on a pay as you go basis.

To forecast the liability the Center did not obtain an actuarial determination of future plan obligations. Instead, the Center used the alternative approach for small plans as outlined by GASB 45. The assumptions included in the determination of the obligation are employee turnover rates, current health insurance costs, years of service, catastrophic and converted sick leave, and employee age.

The cost for this plan for the fiscal year ended June 30, 2005 was \$48,659. Currently, the plan is being funded on a pay-as-you-go basis. The cost will be captured in each year's budget based on prior-year experience.

Fiscal Year Ending	Annual Required Contribution	Percentage of ARC Contributed	Net Benefit Obligation
6/30/2005	\$ 116,680	0.00%	\$ 969,608

**WASATCH MENTAL HEALTH SERVICES
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF UTAH COUNTY

Notes to Financial Statements

June 30, 2005

NOTE 15 – RISK MANAGEMENT

The Center is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors or omissions; injuries to employees and the public; damage to the property of others and malpractice. The Center has obtained commercial insurance against the following types of risk:

- General liability
- Real and personal property damage
- Public employee bond
- Workers compensation
- Vehicle liability

NOTE 16 – CHANGE IN ACCOUNTING PRINCIPLE

Effective July 1, 2004 the Center adopted GASB 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions." As a result of this change, the Center was required to record the liability arising from the Center's policy to fund a retiring employee's health insurance premiums until the employee attains age 65 as the employee earns this benefit rather than on a pay as you go basis. The cumulative affect of this change in accounting on net assets for the year ended June 30, 2005 was a decrease of \$852,928.

SUPPLEMENTAL INFORMATION

**WASATCH MENTAL HEALTH SERVICES
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF UTAH COUNTY

Statement of Revenues and Expenses Compared to Budget

For the Year Ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues			
Contracts	\$ 11,972,420	\$ 13,043,930	\$ 1,062,808
Service Grants	4,526,700	4,526,700	0
Collections	977,000	559,026	(417,974)
Other Revenue	478,150	557,946	79,796
	<u> </u>	<u> </u>	<u> </u>
Total revenue	<u>\$ 17,954,270</u>	<u>\$ 18,687,602</u>	<u>\$ 724,630</u>
Expenses			
Personnel	\$ 12,790,660	\$ 12,795,448	\$ (4,788)
Travel	45,550	33,093	12,457
Office	81,045	75,116	5,929
Occupancy	511,230	500,473	10,757
Contracted Services	2,089,640	1,759,184	330,456
Staff Support	224,820	206,782	18,038
Professional Supplies	43,050	30,622	12,428
Patient Expenses	634,200	628,207	5,993
Other Expenses	1,522,000	1,293,785	228,215
	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$ 17,942,195</u>	<u>\$ 17,322,710</u>	<u>\$ 619,485</u>

SINGLE AUDIT SECTION

**WASATCH MENTAL HEALTH SERVICES
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF UTAH COUNTY

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2005

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
DEPARTMENT OF HEALTH & HUMAN SERVICES			
Passed through: Utah State Department of Human Services Mental Health Services for the Homeless Block Grant	93.150		\$ 68,702
Community Mental Health Services Block Grant	93.958	03-0036	353,700
Title XX Social Services Block Grant	93.667		12,500
Runaway & Homeless Youth Grant	93.623	08CY0180/01	<u>100,000</u>
Total - Department of Health & Human Services			<u>534,902</u>
DEPARTMENT OF EDUCATION			
Passed through: Alpine School District Title I Grants to Local Educational Agencies	84.027	4248	<u>64,208</u>
Total - Department of Education			<u>64,208</u>
TOTAL FEDERAL EXPENDITURES			<u><u>\$ 599,110</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.

**WASATCH MENTAL HEALTH SERVICES
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF UTAH COUNTY

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2005

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Wasatch Mental Health Services Special Service District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 2 – NON-CASH ASSISTANCE

No Federal awards were expended in the form of non-cash assistance.



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Authority Board
Wasatch Mental Health Services Special Service District

We have audited the financial statements of Wasatch Mental Health Services Special Service District as of and for the year ended June 30, 2005, and have issued our report thereon dated November 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Wasatch Mental Health Services Special Service District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Wasatch Mental Health Services Special Service District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, federal awarding agencies, pass-through entities, and the Utah State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

Hawkins Cloward & Simister, LC

HAWKINS CLOWARD & SIMISTER, LC

CERTIFIED PUBLIC ACCOUNTANTS

November 21, 2005



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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Authority Board
Wasatch Mental Health Services Special Service District

Compliance

We have audited the compliance of Wasatch Mental Health Services Special Service District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2005. Wasatch Mental Health Services Special Service District's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Wasatch Mental Health Services Special Service District's management. Our responsibility is to express an opinion on Wasatch Mental Health Services Special Service District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Wasatch Mental Health Services Special Service District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Wasatch Mental Health Services Special Service District's compliance with those requirements.

In our opinion, Wasatch Mental Health Services Special Service District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Wasatch Mental Health Services Special Service District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Wasatch Mental Health Services Special Service District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, pass-through entities, and the Utah State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

Hawkins Cloward & Simister, LC

HAWKINS CLOWARD & SIMISTER, LC

CERTIFIED PUBLIC ACCOUNTANTS

November 21, 2005



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INDEPENDENT AUDITORS' REPORT ON LEGAL COMPLIANCE - STATE OF UTAH

The Authority Board
Wasatch Mental Health Services Special Service District

We have audited the financial statements of Wasatch Mental Health Services Special Service District; a component unit of Utah County, for the year ended June 30, 2005, and have issued our report thereon dated November 21, 2005. As part of our engagement we have audited Wasatch Mental Health Services Special Service District's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; and special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2005. Wasatch Mental Health Services Special Service District received the following major State assistance programs from the State of Utah:

Department of Human Services

Mental Health Services
Mental Health Services – Juvenile
Youth Receiving Center
PASRR
YCSC – Youth Corrections
New Vista Residential

Administrative Office of the Courts

Community Based Programs – Youth Corrections

Wasatch Mental Health Services Special Service District also received the following non-major grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to test work as part of the audit of Wasatch Mental Health Services Special Service District's financial statements.)

Department of Health Services

Children's Grant
Domestic Violence
Provo School District Outreach

Office of Education

Children at Risk

Our audit also included test work on Wasatch Mental Health Services Special Service District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Guide, including:

- Public debt
- Cash management
- Purchasing requirements
- Budgetary compliance
- Special Districts
- Other general compliance issues

The management of the Wasatch Mental Health Services Special Service District is responsible for the organization's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about Wasatch Mental Health Services Special Service District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Wasatch Mental Health Services Special Service District complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.

This report is intended solely for the information and use of management and the State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

Hawkins Cloward & Simister, LC

HAWKINS CLOWARD & SIMISTER, LC

CERTIFIED PUBLIC ACCOUNTANTS

November 21, 2005

**WASATCH MENTAL HEALTH SERVICES
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF UTAH COUNTY
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Wasatch Mental Health Services Special Service District.
2. There were no instances of noncompliance required to be reported under *Government Auditing Standards*.
3. The auditor's report on compliance for the major federal awards program for Wasatch Mental Health Services Special Service District expresses an unqualified opinion.
4. The program tested as a major program is:
Community Mental Health Services Block Grant, CFDA No. 93.958
5. The threshold for distinguishing Types A and B programs was \$500,000.
6. Wasatch Mental Health Services Special Service District was not a low risk auditee due to the prior year's finding.

B. FINDINGS — FINANCIAL AUDIT

2005-1

There were no current year findings.

**C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

There were no findings or questioned costs.

**WASATCH MENTAL HEALTH SERVICES
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF UTAH COUNTY

Schedule of Audit Findings

Year Ended June 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Wasatch Mental Health Services Special Service District.
2. There were no instances of noncompliance required to be reported under *Government Auditing Standards*.

B. SUMMARY OF PRIOR YEAR FINDINGS – FINANCIAL AUDIT

2004-1

The Center changed its billing software in January and experienced some problems with the conversion. As a result, billings for individual services were delayed for 8 months. This increased receivables and collection problems due to the lag in time.

Status

The finding has been resolved in the current year.



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The Authority Board Wasatch Mental Health Services Special Service District

We have audited the financial statements of Wasatch Mental Health Services Special Service District (the Center) for the year ended June 30, 2005 and have issued our report thereon dated November 21, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated July 26, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the Center. Such considerations were solely for the purpose of determining our audit procedures and not to provide assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and application. The significant accounting policies used by the Center are described in Note 1 to the financial statements. The Center adopted GASB statement 45 during fiscal year 2005 but the application of all other existing policies was not changed. We noted no transactions entered into by the Center during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of allowance for doubtful accounts, estimates used in the calculation of the post-retirement benefit obligation, the useful lives of depreciable assets, and the applicable depreciation amounts. We evaluated the key factors and assumptions used to develop these amounts in determining that they were reasonable in relation to the financial statements taken as a whole.

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Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Center that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements.

We made reclassifying entries to the Center's books and waived several other entries. We have provided your staff with these entries and will provide assistance to adjust the account balances as needed.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those financial statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Center's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management, but did encounter some difficulties in performing the audit. The staff was helpful and assisted us in obtaining the information we needed to perform the audit. However, timely preparation of schedules caused some delays in the performance of the audit. In addition, some accounts required more analysis, research, and adjustment than was anticipated.

This information is intended solely for the use of the Authority Board and management, and is not intended to be and should not be used by anyone other than these specified parties.

Hawkins Cloward & Simister, LC

HAWKINS CLOWARD & SIMISTER, LC

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November 21, 2004